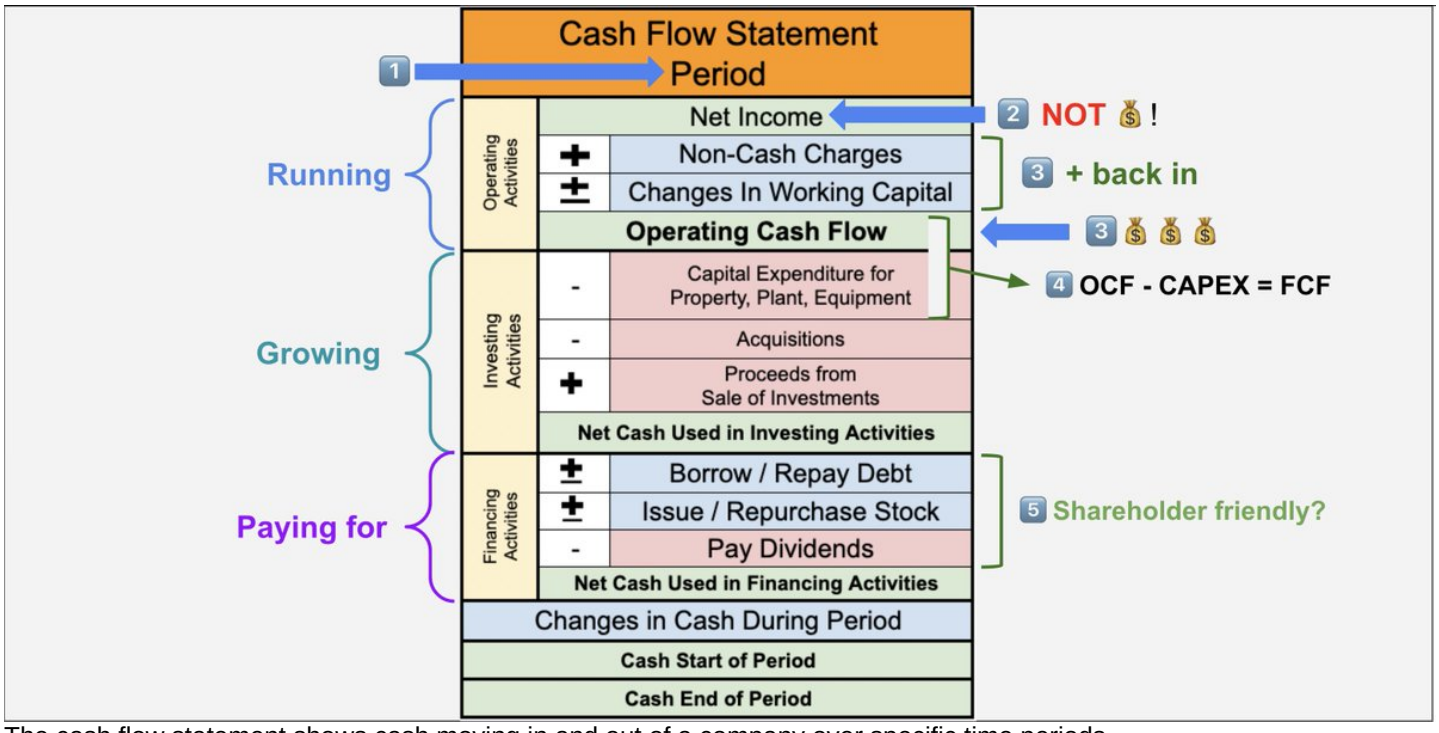
Twitter Thread by Brian Withers

Brian Withers
@StocksWithBrian

Amateurs focus on Profits.

Professionals focus on Cash Flow.

Cash Flow Statement 101: ■



The cash flow statement shows cash moving in and out of a company over specific time periods.

Since it's Jan right now, the two most common will be:

■ 3 Quarters
■ 1 Year

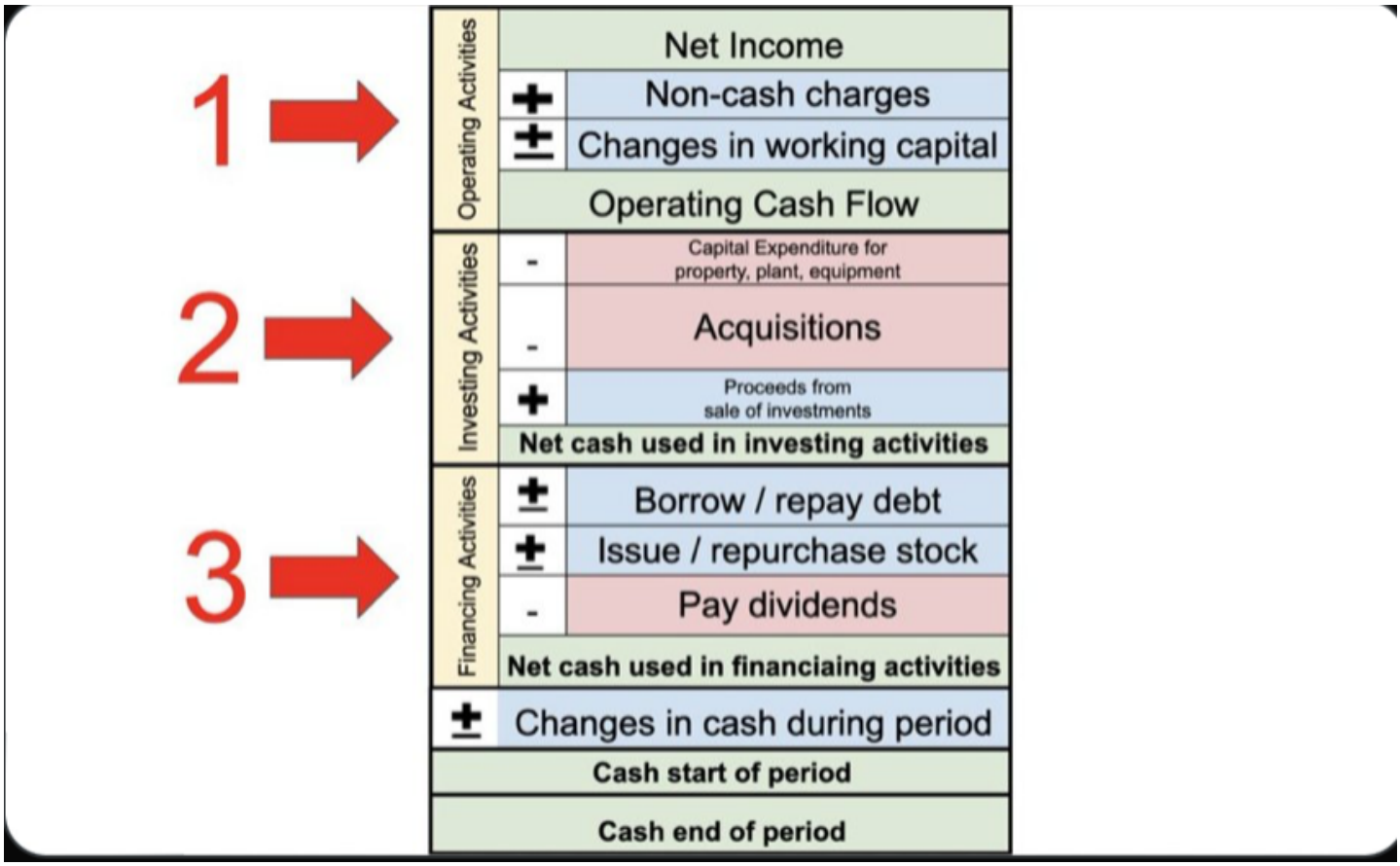
Below, we can see CrowdStrike's cash flow over the past 9 months. The time frame is at the top $CRWD

	Nine Months Ended October 31,	
	2022	2021
Operating activities		
Net loss	$ (133,353)	$ (190,639)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	53,622	39,506
Amortization of intangible assets	12,338	9,072
Amortization of deferred contract acquisition costs	121,550	79,712
Non-cash operating lease costs	6,818	6,727
Stock-based compensation expense	374,157	217,315
Deferred income taxes	2,286	(1,338)
Non-cash interest expense	2,077	1,824
Change in fair value of strategic investments	(4,757)	(4,356)
Changes in operating assets and liabilities, net of impact of acquisitions		
Accounts receivable, net	(117,240)	(40,644)
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Prepaid expenses and other assets	(14,121)	(8,051)
Accounts payable	25,007	(7,033)
Accrued expenses and other liabilities	21,820	74,426
Accrued payroll and benefits	21,635	22,258
Operating lease liabilities	(7,037)	(7,394)
Deferred revenue	486,177	375,582
Net cash provided by operating activities	667,714	415,066
Investing activities		
Purchases of property and equipment	(179,609)	(85,420)
Capitalized internal-use software and website development c	(20,739)	(15,201)

There are three key parts to a cash flow statement:

1■■ Operating Activities (Running the business)
2■■ Investing Activities (Investing in the business)
3■■ Financing Activities (Paying for the business)

There's freedom in how it gets reported, but this is the basic structure

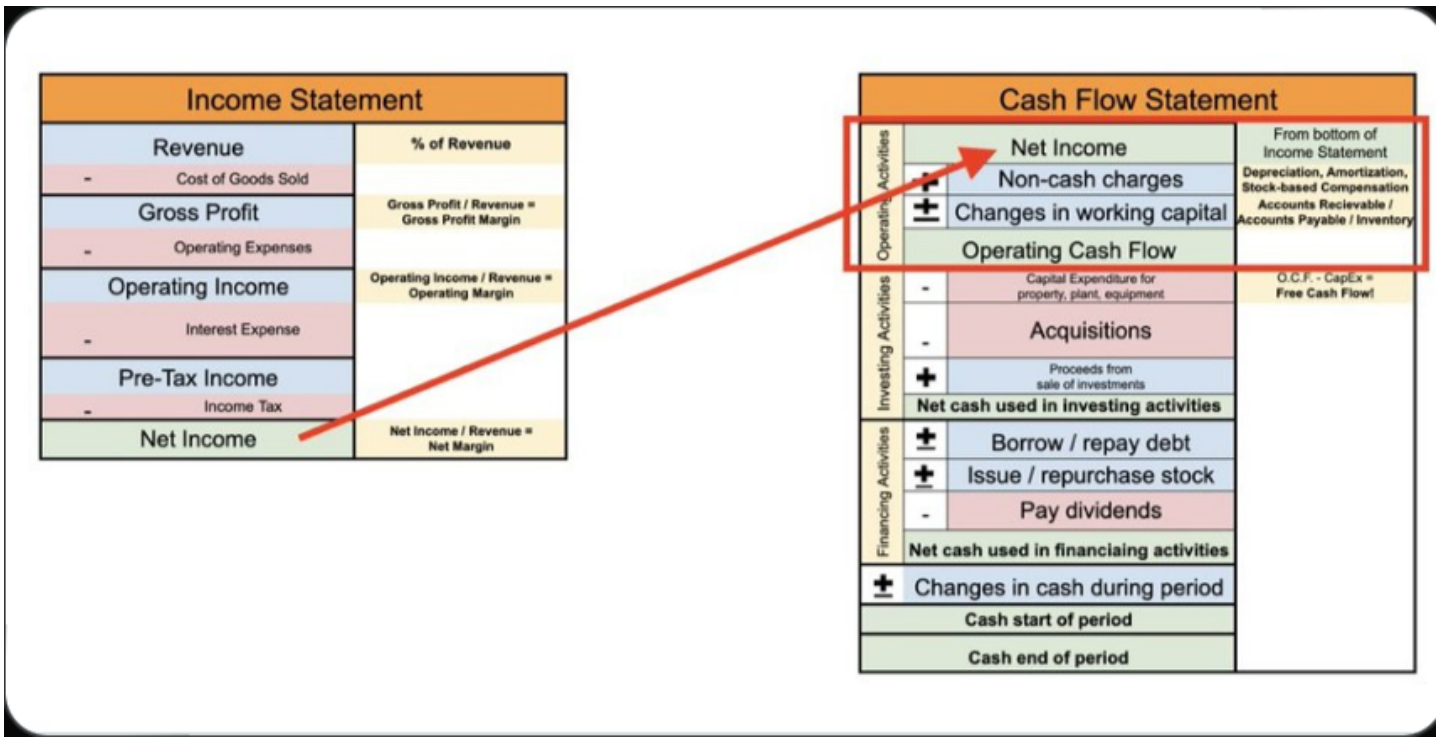


Let's specifically look at operating activities

The top line-item is NET INCOME.

You'd think this would represent the money a company puts in the bank at the end of the year.

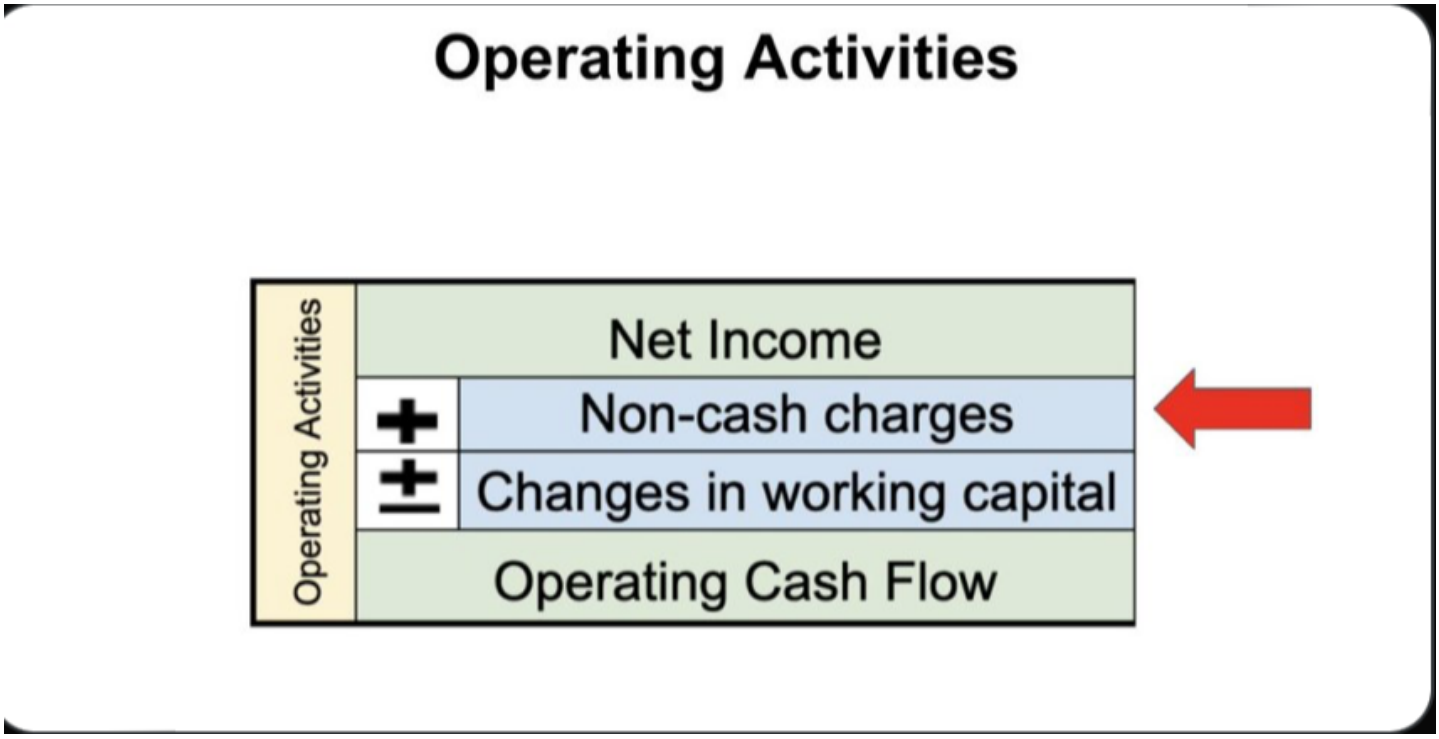
But that's NOT THE CASE



Net Income backs out NON-CASH charges. The cash flow statement adds them back in.

Including:

■ Depreciation: Value of asset decreasing
■ Amortization: Expensing pre-paid cost
■ Stock-Based Compensation: Paying employees w/ equity



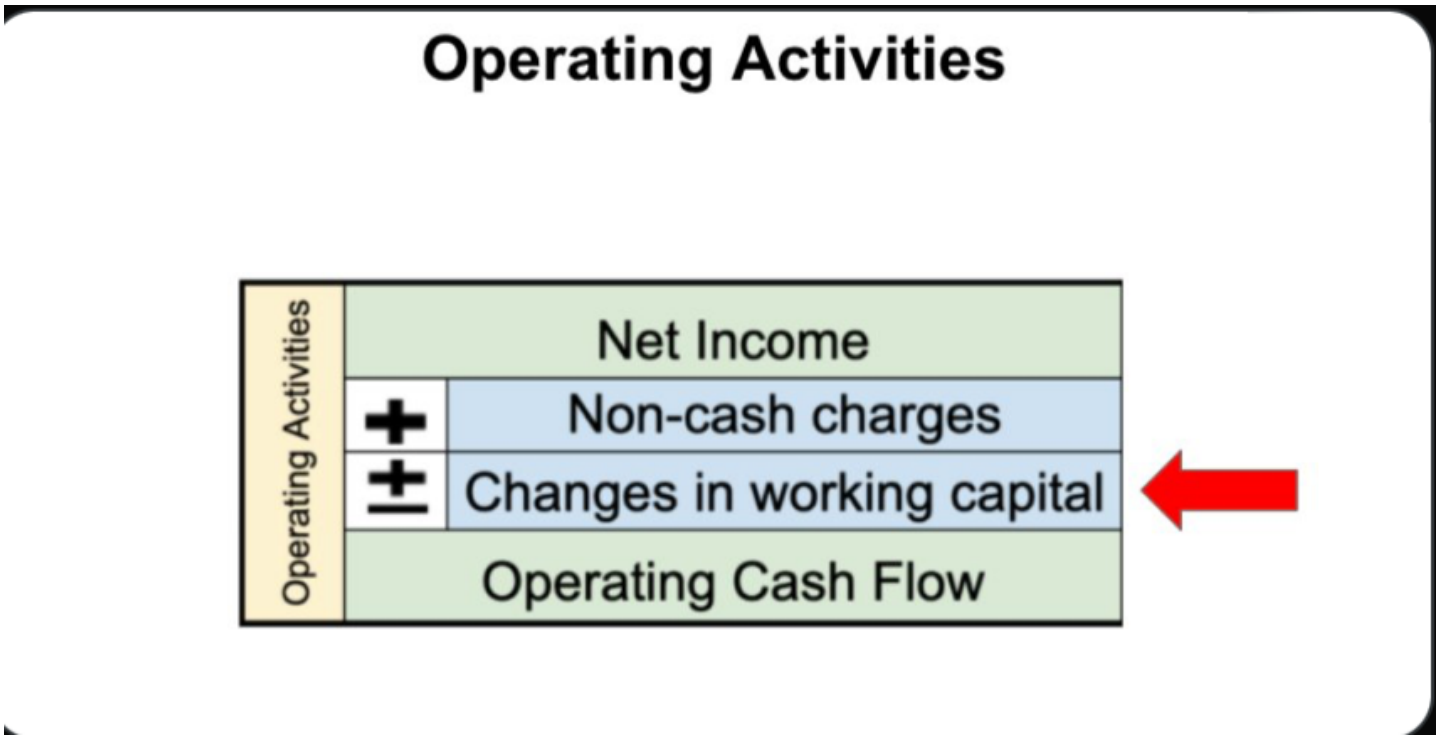
Next, working capital leads to cash being added or subtracted.

This covers:

■ Accounts Receivable: Sales not yet collected

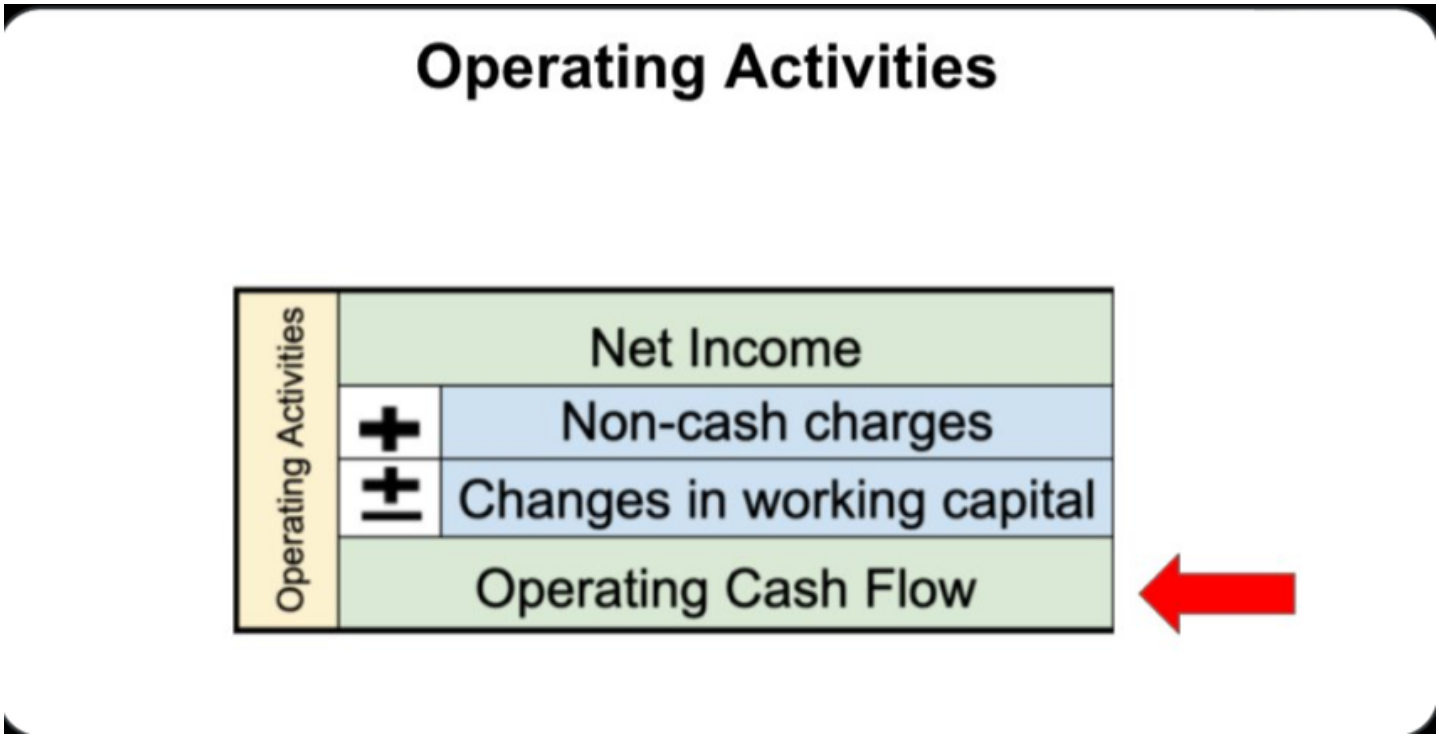
■ Accounts Payable: Bills not yet paid

■ Inventory: Value of "stuff" not yet sold



When all of those things are accounted for, you get OPERATING CASH FLOW.

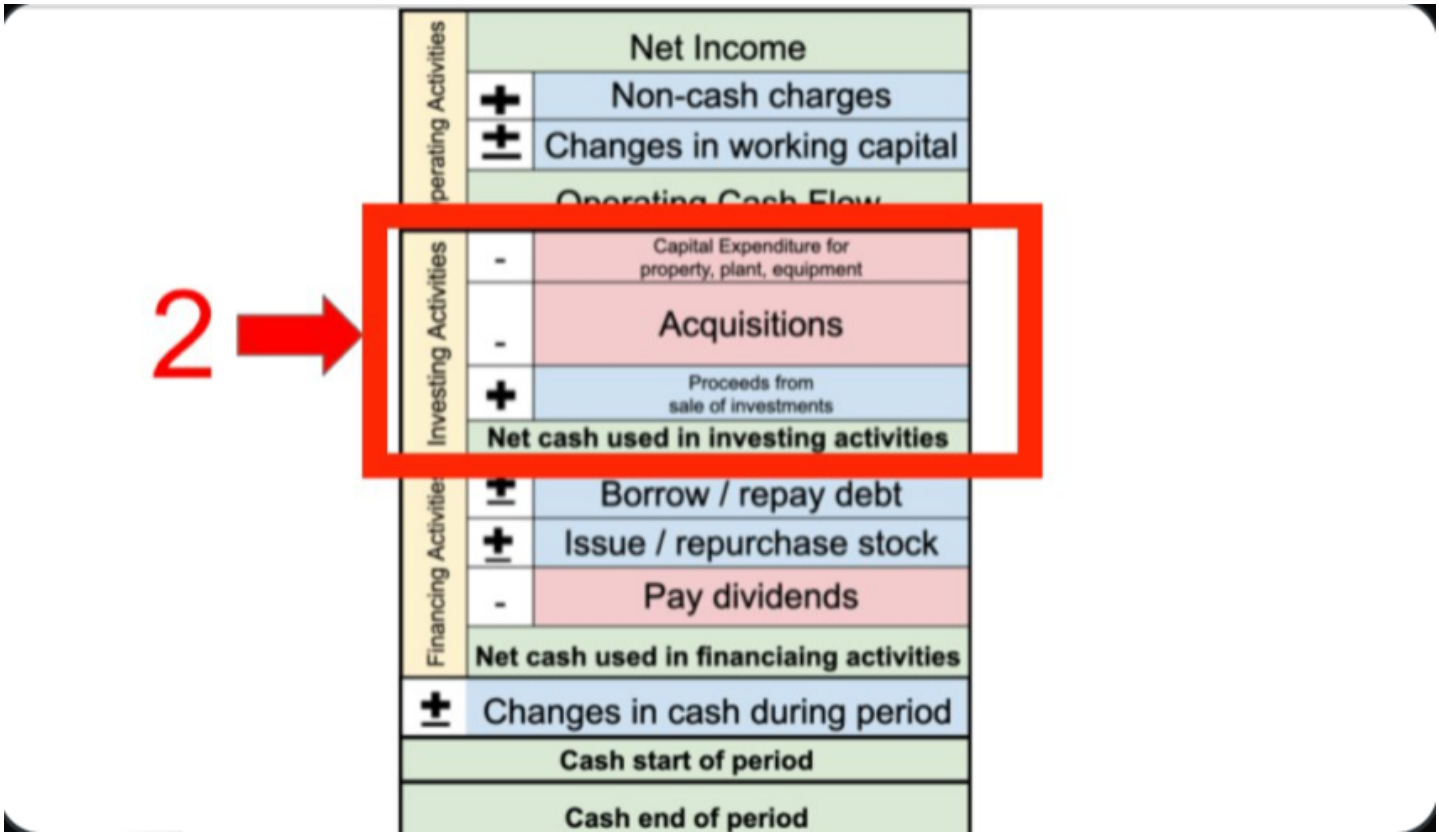
The easiest way of thinking about it: this is a company's REAL net income -- on a cash (and not accrual) basis.



The next section is investing activities.

The first line item is very important:
CAPITAL EXPENDITURES

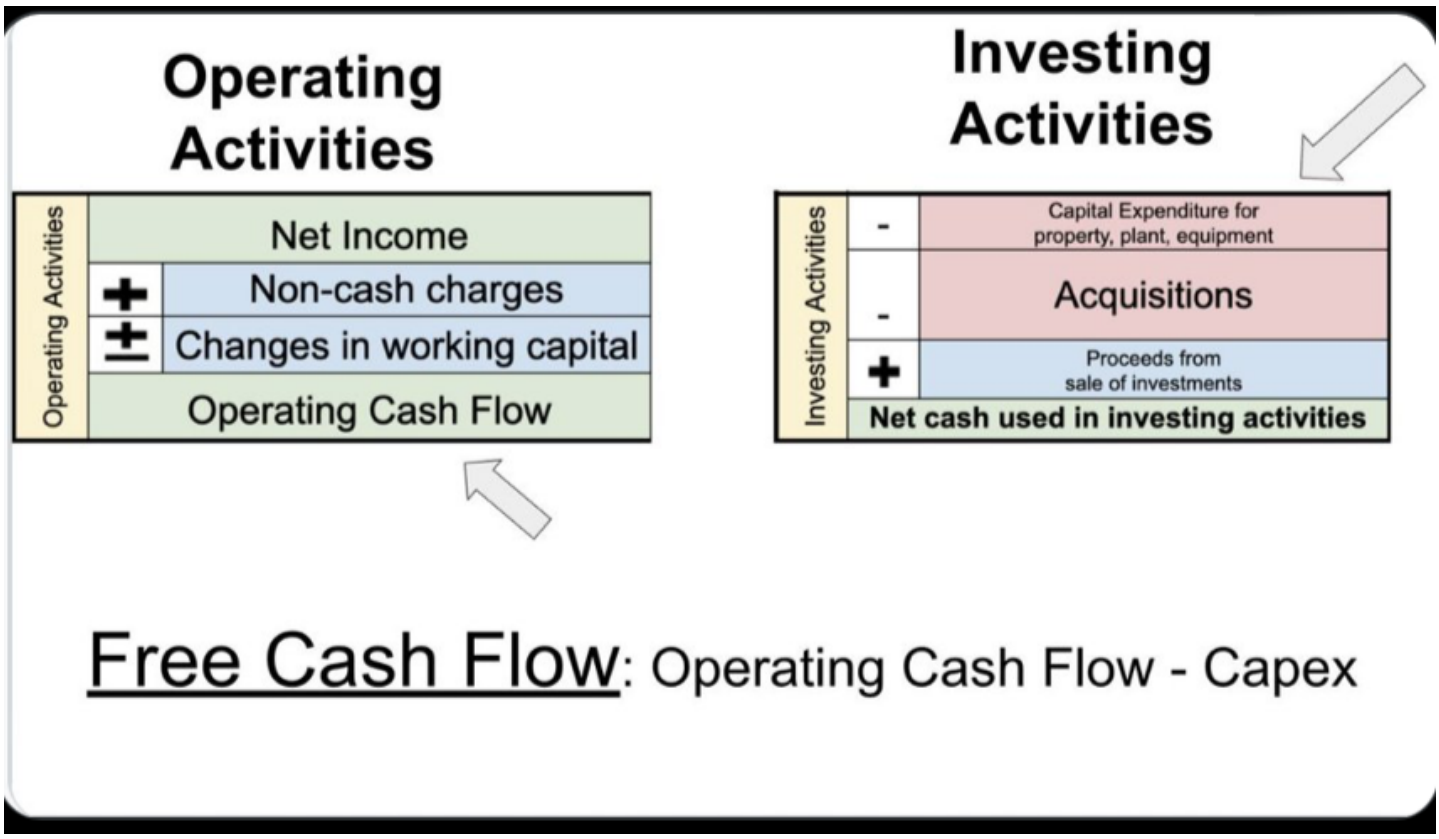
■ Cash spent to acquire or maintain property, plant, buildings, or equipment.
■ Cash spent to develop internally-used software



With these figures, we can now calculate FREE CASH FLOW.

This is the money a company generates from business after paying for capital expenditures.

This is one of the most important financial metrics in my investing framework



Why?

FCF tells a very different story than NET INCOME
Consider $CRWD

■Net LOSSES in the first 9 months of the past two years have been over $300 million

■That seems pretty bad

	Nine Months Ended October 31,	
	2022	2021
Operating activities		
Net loss	$ (133,353)	$ (190,639)
Adjustments to reconcile net loss to net cash provided by operating activities:		
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But there are two HUGE caveats:

1■■ ~$590 million in stock-based compensation (SBC).

2■■ ~$860 million in deferred revenue.

The latter represents fees $CRWD has already collected for service in the future. It's in the bank.

(Note: SBC *does* dilute shareholders)

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Incredibly, when you do the math, $CRWD produced:

■$415 million in Operating Cash Flow in the 2021 time period

■$668 million in Operating Cash Flow in the 2022 time period

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To find Free Cash Flow, we subtract out Capital Expenditures.

When we do, $CRWD Free Cash Flow numbers are:

■$315 million in the first 9 months of 2021

■$467 million in the first 9 months of 2022

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Think about that.

■While it's true that $CRWD Net Income LOSSES were over $300M

■It's also true that $CRWD Free Cash Flow GAINS were nearly $800M

Knowing that is vitally important with stocks tanking and sources of funding drying up. The company can self-fund if it wants!

Was this helpful?

@BrianFeroldi , @Brian_Stoffel_ , and I run a live course that gives you the tools to understand financial statements with easy-to-understand examples.

Registration is only open for a few more days ➡■ https://t.co/9j51s8E9oV

DM me for a coupon code.

@BrianFeroldi @Brian_Stoffel_ Here's another thread you might be interested in: https://t.co/TQmCltP23L

> How to analyze a:
>
> \u25aa\ufe0fBalance Sheet
> \u25aa\ufe0fIncome Statement
> \u25aa\ufe0fCash Flow Statement
>
> In less than 5 minutes: pic.twitter.com/JseZux2yFJ
>
> — Brian Withers (@StocksWithBrian) December 27, 2022